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Message Text

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ACTION EA-09

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C O N F I D E N T I A L MANILA 17098

FOR FAS

E. O. 11652: NA
TAGS: EAGR, RP
SUBJECT: PRESIDENT "BAILS OUT" SUGAR INDUSTRY?

SUMMARY: THE SUGAR CRISIS--DEPRESSED WORLD PRICES, HIGH DOMESTIC BUYING PRICES, RISING SUGAR STOCKS--FINALLY BECAME PUBLIC WHEN PRESIDENT MARCOS, ACCORDING TO ALL MAJOR DAILIES, "CREATED TWO COMMITTEES TO BAIL OUT THE TROUBLED SUGAR INDUSTRY." PHILEX WAS DESCRIBED AS BEING ON THE VERGE OF BANKRUPTCY. PRESIDENT MARCOS' DECISION POSTPONES THE INEVITABILITY OF LOWER PURCHASING PRICES FOR A SHORT TIME AND SHIFTS RESPONSIBILITY FOR UNPOPULAR PRICE DECISION TO TWO GOVERNMENT COMMITTEES. END SUMMARY.

1. THE PHILIPPINE EXCHANGE (PILEX), A SUBSIDIARY OF THE PNB, HAS STILL NOT DETERMINED PRICES FOR THE 1976-77 SUGAR CROP (SEPT 1, 1976-AUG 31, 1977) EVEN THOUGH THE PHILIPPINES IS IN THE THIRD MONTH OF THE MILLING SEASON. WITHOUT PHILEX PRICES, MILLS CANNOT ISSUE QUEDANS (WAREHOUSE RECEIPTS) FOR CANE SUGAR. HARVESTING IN MOST AREAS IS BEING DELAYED BECAUSE PRODUCERS LACK SUFFICIENT FUNDS OR CREDIT TO PAY FOR HARVESTING COSTS. INDUSTRY SOURCES INDICATE THAT AN CONFIDENTIAL

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INSOLVENT FINANCIAL POSITION HAS CAUSED PHILEX TO DELAY

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THE DECISION ON THIS YEAR'S PRICES. THIS SITUATION HAS
RESULTED IN A MOOD OF ANXIETY, GLOOM AND FRUSTRATION IN
THE SUGAR AREAS OF NEGROS AND PANAY.

2. SUGAR THUS WAS THE MAIN SUBJECT OF THE NATIONAL ECONOMIC
AND DEVELOPMENT AUTHORITY (NEDA) MEETING WITH PRESIDENT
MARCOS ON NOVEMBER 3. THE RESULTS OF THIS MEETING
WERE CARRIED IN ALL NOVEMBER 4 MANILA PAPERS. ACCORDING
TO THE PRESS, "PRESIDENT MARCOS, ALARMED AT THE FALLING
WORLD PRICES OF SUGAR, CREATED TWO COMMITTEES TO BAIL
OUT THE TROUBLED SUGAR INDUSTRY." ONE COMMITTEE COMPOSED OF
SECRETARY OF TRADE QUIAZON, BUDGET COMMISSIONER LAYA AND SECRETARY
OF FINANCE VIRATA WILL WORK WITH THE COMMITTEE ON AUDIT TO DETER-
MINE THE BEST PRICES FOR DOMESTIC AND EXPORT SUGAR. PRESIDENT
MARCOS ALSO ORDERED THE AUDIT OFFICIALS TO DETERMINE,
ON THE BASIS OF CURRENT PRICES, HOW MUCH PHILIPPINE EXCHANGE
WOULD GAIN OR LOSE FROM THE EXPORT OF TWO MILLION TONS
OF SUGAR IN 1976-77.

3. THE OTHER COMMITTEE, COMPOSED OF SECRETARY OF AGRICULTURE
TANCO AND SECRETARY OF LABOR OPLE, IS DIRECTED TO FORMULATE
A RECOMMENDATION FOR REDUCING THE COST OF PRODUCING SUGAR.
BOTH COMMITTEES ARE TO SUBMIT THEIR REPORTS AND RECOMMENDA-
TIONS BY NOVEMBER 6.

4. THE PRESIDENT ALSO ORDERED NEDA TO PREPARE AN OVERALL
FIVE-YEAR PLAN FOR THE INDUSTRY. AMONG THE IDEAS DISCUSSED
AT THE MEETING WERE:

A) REDUCING THE SUBSIDY ON DOMESTIC SUGAR WHICH
IN THE PAST WAS FINANCED BY PROFITS FROM EXPORTED
SUGAR; AND

B) MAKING THE LIQUIDATION PRICE FOR DOMESTIC AND EXPORT
SUGAR FLEXIBLE AND MORE CLOSELY IN LINE WITH THE ACTUAL WORLD
MARKET PRICE.

5. COMMENT: PHILEX IS DEFINITELY SHORT OF FUNDS. BASED
ON DATA FOR 1975-76, THE FOLLOWING IS OUR BEST ANALYSIS
OF PHILEX'S PROBLEM. PROCUREMENT COSTS OF BEGINNING STOCKS
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PLUS 1975-76 PRODUCTION AND SUBSIDY ON DOMESTIC SUGAR TOTALED
ABOUT 877 MILLION DOLLARS. VALUE OF EXPORTS AND DOMESTIC
SALES WERE ABOUT 452 MILLION DOLLARS. THUS, PHILEX HAS
EXPENDED NEARLY 425 MILLION DOLLARS MORE THAN RECEIPTS
BUT POSSESSION OF 1.8 MILLION TONS OF SUGAR. ESTIMATED
VALUE OF CURRENT STOCKS, AT WORLD PRICES IS ABOUT 285 MILLION
DOLLARS. IN ADDITION, INDUSTRY SOURCES BELIEVE THAT PHILEX
HAS ADDITIONAL 3.4 U.S. CENTS PER POUND FOR BAGGING,

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WAREHOUSING, HAULING, ETC., THE EXPORT SUGAR. THIS WOULD ADD AN ADDITIONAL 201 MILLION DOLLARS TO THE DEFICIT OF 425 MILLION DOLLARS.

6. PRESIDENT MARCOS' ANNOUNCEMENTS APPEAR TO BE THE FIRST STEP TOWARD MAKING THE UNPOPULAR DECISION WHICH WILL RESTRUCTURE PHILIPPINE SUGAR PRICES. THE COMMITTEES WHICH HE HAS CREATED WILL MOST LIKELY RECOMMEND PRICE RESTRUCTURING AS THE ONLY VALID ALTERNATIVE IN THE CURRENT SITUATION. THUS, THE PRESIDENT PROBABLY HOPES TO CREATE IMPRESSION THAT HIGH LEVEL EXPERTS COMMITTEE HAS LEFT HIM WITH NO RESPONSIBLE CHOICE OTHER THAN RESTRUCTURING PRICES. IN ANY CASE, THE END RESULT OF THIS POLITICAL MANEUVERING APPEARS CERTAIN: PHILIPPINE DOMESTIC SUGAR PRICES WILL SHORTLY BE ADJUSTED. THE TIMING OF THE DECISION AND THE LEVEL OF THE NEW PRICES ARE THE ONLY QUESTIONS OF DOUBT. SULLIVAN

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